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C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 000472

SIPDIS

STATE FOR NEA/ELA, EEB/IFD/OMA, EEB/EPPD
TREASURY FOR SETH BLEIWEIS

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TAGS: [ECON](#) [PGOV](#) [ETRD](#) [EAID](#) [KTEX](#) [EFIN](#) [JO](#)

SUBJECT: JORDANIAN ECONOMY WEAKENS UNDER GLOBAL PRESSURE

REF: A. AMMAN 433

[1](#)B. AMMAN 226

[1](#)C. AMMAN 136

[1](#)D. 08 AMMAN 3173

[1](#)E. 08 AMMAN 2982

[1](#)F. 08 AMMAN 2799

[1](#)G. 08 AMMAN 1717

Classified By: Ambassador R. Stephen Beecroft for
reasons 1.4 (b) and (d)

[1](#)1. (SBU) SUMMARY: Jordan is starting to feel the effects of the global economic crisis, with real growth expected to drop from 6% in 2008 to 3% in 2009. Although conservative monetary policies helped protect Jordan from immediate external shocks, weak domestic and international demand and tightening credit have caused local companies to lose business, suffer cash flow problems, and lay off employees. First quarter 2009 statistics are not yet available, but the Government of Jordan (GOJ) projects the following: export growth will drop from 38% in 2008 to -3% in 2009; government revenue will be reduced 7% by \$500 million in 2009; tourism growth will drop from 16% in 2008 to -2% in 2009; unemployment will rise to 15%; and remittances from abroad will decline significantly due to the return of Jordanian expats from the Gulf. Foreign direct investment is also expected to fall as Gulf investors repatriate capital.

[1](#)2. (C) Given the negative projections, the GOJ has requested USG help in securing grants from Saudi Arabia and debt relief from Japan. They will almost certainly also look to us to provide substantial assistance, which they see as necessary to ensure stability and continued reform. Given that signs of an economic slowdown are starting to show, many business people believe the Jordanian government needs to develop and implement quickly a clear plan to build confidence. The GOJ is considering a \$258 million economic stimulus package aimed at the construction and agricultural sectors. The bail-out package may also include tax incentives that will most likely prevent the submission of a USAID-supported, unified tax code to parliament this year. On the plus side for Jordanian citizens, the GOJ projects that the inflation rate will be reduced from 14.9% in 2008 to 4% in 2009, primarily due to declining worldwide prices in fuel and food. END SUMMARY.

Public Message: "We're Doing Okay"

13. (C) The Prime Minister has publicly conveyed the message that Jordan,s economy is "doing okay." Conservative monetary policies have been lauded for protecting Jordan from the initial impact of the global financial crisis (ref C). Key monetary indicators, such as \$8 billion in foreign reserves and \$25.8 billion in commercial bank deposits, have been highlighted publicly as signs of a liquid economy. Strong performance in the first three quarters of 2008 led to relatively impressive year-end 2008 statistics, such as a decline in official unemployment rates from 13.1% to 12.7%, a reduction in the budget deficit as a percentage of GDP from 6.4% to 5%, and a 37.7% increase in national exports to \$6.19 billion compared to 2007.

14. (C) During a February 15 meeting with the Ambassador, however, Finance Minister Hamed al-Kasasbeh expressed serious concerns about a weakening economy under global pressure. Private sector interlocutors have also told EconOffs that it is nave to say that Jordan has been completely isolated from the global financial crisis and clearly represents a government attempt to prevent a panic. They suggest that the negative effects of the worldwide economic slump have only started to show in the first quarter of 2009, for which official statistics are not yet available, and caution that Jordan,s economic situation may continue to deteriorate significantly if not properly managed.

Growth Predicted to Slow in 2009

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15. (C) After five years of real GDP growth averaging 6%, Kasasbeh projected that Jordan,s real GDP growth rate would fall to 3% in 2009. Although Jordan received \$4.24 billion in foreign direct investment in 2008, he noted that 50-60% of that was from the Gulf and is expected to drop in 2009 as Arab states seek to repatriate capital because of falling oil prices. Kasasbeh added that Jordan is also seeing delays and potential cancellations of important privatization and public-private partnerships, including the light rail (ref G), upgrade and expansion of the refinery (ref A), and the third Independent Power Producer project. The GOJ also estimates that tourism which grew 15.7% in 2008 will fall -2% in 2009, a trend corroborated by some businesses which have reported a 20% reduction in tourism revenue since autumn 2008.

16. (SBU) Business contacts have indicated that they are only now starting to see the negative impact of the fourth quarter 2008 on their companies, year-end financials and fear first quarter 2009 will look even worse. Many businesses bought materials at high prices in summer 2008 and are now facing losses as market prices for their goods fall. Arab Potash Company (APC) Chairman and former Minister of Finance Mohammad Abu Hammour said that many companies also had year-long contracts in 2008, which protected them from the immediate fall-out of the crisis, but now face the problem of renegotiating contract terms and prices for 2009. Many garment factories, as well, have indicated that although they have orders through April, the second half of 2009 remains uncertain (ref B).

17. (SBU) The GOJ predicts that export growth will fall dramatically from 37.7% in 2008 to -3% in 2009. Significant increases in the value of national exports in 2008 were largely due to increased prices (not volume) of phosphates and potash before the crisis hit. Abu Hammour noted that now that worldwide prices of phosphates have decreased dramatically from \$800 to \$80 per ton, those export figures will most likely decline in 2009. He confirmed that APC has also cut the projected volume of its potash exports in 2009. Lower demand in the U.S. for apparel caused a 15% decrease in Jordan,s top export, garments, in 2008, with the trend expected to continue in 2009. Exports of pharmaceuticals,

which grew from \$422 million in 2007 to nearly \$500 million in 2008, also face a difficult year according to Hanan Sboul, Secretary General of the Jordanian Association of Pharmaceutical Manufacturers. She explained that Algeria, which receives about 25% of Jordan's pharmaceutical exports, has closed its market to imports to protect its domestic pharmaceutical sector.

Credit Tightening Hits Industry and Real Estate

18. (C) Abu Hammour noted that Jordan's commercial banks have encouraged savings by offering a 7.5% return on deposits in Jordanian dinars and maintained relatively high interest rates of 10-11% on loans. Given that the banks are also cutting back on lending, many companies are now suffering from credit and liquidity problems (ref C). Several private sector interlocutors have commented that such banking policies during an economic downturn will stifle consumer spending and business expansion. Chamber of Industry CEO Zaki Ayoubi noted that Jordan's small industrial companies are often family-run and tend to have most of their capital in fixed assets, so are particularly vulnerable to any tightening of credit.

19. (SBU) Construction projects are also facing serious cash flow challenges. Work has reportedly slowed down or completely stopped at many of the largest real estate development projects in Amman, Aqaba, and Madaba, causing anxiety in customers who prepaid for apartments or offices that may not be finished. The ripple effect has reached ancillary industries, such as one logistics company which is still awaiting payment for 100 trucks purchased by a real estate developer.

Unemployment Expected to Grow with Returning Expats

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10. (C) Kasasbeh predicted that Jordan's official unemployment would rise from 12.7% in 2008 to 15% in 2009. Indeed, reports of local company lay-offs are starting to emerge in the press. Various public and private sector interlocutors commented that large numbers of Jordanian expats in the Gulf are also expected to return to Jordan when their contracts expire, usually in June. Some have speculated that their return may not only create a large pool of unemployed, talented professionals in Jordan but also depress wages as supply grows. Kasasbeh noted that the returnees will put additional pressure on water, energy, school, and other government expenditures. He also indicated that Jordan is starting to see a reduction in official remittances from abroad, which were valued at 19% of GDP in 2007 and have been a large contributor to Jordan's increased foreign reserves (ref F).

Slowing Economy will Impact Government Revenues

11. (C) Kasasbeh expressed concern about Jordan's deteriorating fiscal outlook. He said that the global crisis is putting pressure on the 2009 budget, which increased 8.2% over 2008 due to growing capital expenditures and was based on optimistic assumptions regarding economic growth, revenues, and mostly unsecured grants before the crisis hit (ref E). Now the GOJ expects revenues to decrease by \$500 million, which will contribute to an increase in the budget deficit from a projected \$967 million to \$1.162 billion. Several business people have criticized the GOJ for overestimating revenues in 2009, noting that revenues will surely drop due to declines in sales tax, customs duties, and corporate income tax in the wake of slower economic growth and falling commodity prices.

12. (C) Kasasbeh said the GOJ is also fearful that it may

not be able to secure anticipated foreign grants. He requested USG assistance in ensuring continued aid from Saudi Arabia and assistance with \$1.5 billion in debt owed to Japan. He also sought additional USG assistance to cover the expected decline in government revenues.

Stimulus Package

¶13. (C) Private sector interlocutors have complained to EconOffs about the government's lack of a transparent economic plan to deal with the effects of the global crisis, although they appreciated the GOJ's recent efforts to discuss needs with various sectors. The GOJ is reviewing a list of economic projects to be included in a \$258 million economic contingency plan. Kasasbeh is quoted in local press as saying that the projects are mainly divided between the agricultural, construction and water sectors. The Finance Minister also told the Ambassador that tax incentives in the government's stimulus package will reduce revenues further and prevent the government from submitting a new USAID-supported, pro-business unified tax code to parliament this year.

Declining Economy Not Yet Felt by Most Families

¶14. (C) Kasasbeh predicted that the percentage of families living in poverty would rise from 14% to 16% in 2009. In the short-term, however, the worldwide crisis has provided some relief to the household budgets of many families. In 2008, GOJ provided significant raises to government workers, about 30% of the workforce, as a means of addressing the record inflation (ref D). Due to declining global food and fuel prices over the last four months, Jordanians have benefited from a 5.9% drop in consumer prices since they peaked in September 2008.

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